

# **South Carolina Board of Economic Advisors**

## **Statement of Estimated State Revenue Impact**

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**Date:** May 29, 2007 (As amended on May 16, 2007 by the Senate Finance Committee)

**Bill Number:** S.B. 310

**Authors:** Hayes, Setzler, and Gregory

**Committee Requesting Impact:** House Ways and Means Committee

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### **Bill Summary**

To amend Section 12-36-2120, as amended, Code of Laws of South Carolina, 1976, relating to sales tax exemptions, so as to exempt the gross proceeds of sales or sales price of durable medical equipment and related medical supplies eligible for Medicare or Medicaid reimbursement and which are sold by written prescription or certificate of medical necessity.

### **REVENUE IMPACT <sup>1/</sup>**

This bill is expected to reduce state sales and use tax revenue by an estimated \$808,930 in FY2007-08. Of that total, \$647,144 will be a reduction in General Fund sales tax revenue and \$161,786 will be a reduction in EIA funds.

### **Explanation of amendment (May 16, 2007) – by the Senate Finance Committee**

This amendment would strike all language after the enacting words and insert new language that would reduce the sales and use tax on the sale of durable medical equipment (DME) and related supplies paid directly by funds under the Medicare or Medicaid programs from six percent to five and one-half percent from July 1, 2007 through June 30, 2008. We estimate that taxable Medicare/Medicaid DME sales in South Carolina will total \$161,786,092 in FY2007-08. Reducing the sales and use tax by one-half percentage point on the sales of taxable Medicare/Medicaid DME is expected to reduce state sales and use tax by an estimated \$808,930 in FY2007-08. Beginning with the February 15, 2008 forecast by the BEA, if the growth rate in General Fund revenue for the upcoming fiscal year is at least five percent compared to the current fiscal year's estimate, then the sales and use tax rate on taxable Medicare/Medicaid DME may be reduced by one percentage point beginning the following July 1. The BEA would notify the Department of Revenue in writing that this requirement has been met. That rate would remain in effect until another formal review of General Fund growth rates is undertaken by the following February 15<sup>th</sup> forecast. This process would continue in one percentage point increments until the sales and use tax on Medicare/Medicaid DME is wholly eliminated. This amendment is expected to reduce state sales and use tax by a total of \$14,000,830 in FY2012-13 when fully implemented. This bill also provides that eighty percent of the sales taxes generated by the tax rate provided in this section must be credited to the general fund of the State and used as sales taxes are used and the remainder must be credited to the Education Improvement Act fund.

### **Explanation of bill filed January 23, 2007**

This bill would exempt durable medical equipment (DME) and related supplies from sales and use tax when such equipment is purchased under a certificate of medical necessity and is reimbursable under the Medicare and/or Medicaid program. This exemption applies whether or not such purchases are made by Medicare and/or Medicaid beneficiaries. Based upon historic data provided by the Centers for Medicare and Medicaid Services (CMS) and the SC Department of Health and Human Services (DHHS), it is estimated that combined Medicare and Medicaid DME related expenditures will total an estimated \$252,930,270 in South Carolina in FY2007-08. Under current law, two major DME product

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categories, oxygen and related supplies and diabetic supplies, are already exempt from sales and use tax liability. According to data obtained from CMS and DHHS, oxygen and related supplies and diabetic supplies comprise roughly half of Medicare's and Medicaid's combined total DME expenditures annually. Removing an estimated 50 percent of Medicare and Medicaid DME expenditures already exempt under current law from estimated FY2007-08 Medicare and Medicaid total DME expenditures and applying a six percent sales and use tax rate to the remaining amount reduces total sales and use tax revenue by an estimated \$7,327,584. It is also estimated that non-Medicare and/or Medicaid beneficiaries will spend an estimated \$60,070,939 on eligible DME equipment and related supplies in FY2007-08, excluding purchases of oxygen and related supplies and diabetic supplies already exempt from sales and use tax liability. Applying a six percent sales and use tax rate to estimated eligible DME equipment and related supply purchases by non-Medicare and/or Medicaid beneficiaries in FY2007-08 reduces total sales and use tax revenue by an additional \$3,604,256 in FY2007-08. In total, exempting eligible purchases of DME equipment and related supplies by Medicare and/or Medicaid beneficiaries and non-beneficiaries is expected to reduce state sales and use tax revenue by an estimated \$10,931,840 in FY2007-08. Of that total, \$7,287,893 will be a reduction in General Fund sales tax revenue, \$1,821,973 will be a reduction in EIA funds, and \$1,821,973 will be a reduction in Homestead Exemption funds for homeowner tax relief.

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<sup>1/</sup> This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.